

Minnesota Historic Structure Rehabilitation Tax Credit QRE Schedule Instructions

Documentation of Qualified Rehabilitation Expenditures, Allowable Federal Credit, and Substantial Rehabilitation Test for the Purposes of the Minnesota Historic Structure Rehabilitation Tax Credit

In order to facilitate State Historic Preservation Office (SHPO) review of a project's Qualified Rehabilitation Expenditures (QREs), non-qualified expenditures, and timing in relation to the federal substantial rehabilitation test, applicants must submit a QRE Schedule with Parts A and B of the state tax credit application.

The QRE schedule is a table of expenses organized by division of construction (e.g., thermal and moisture protection, doors and windows, mechanical, electrical, etc.) or type of expense. Items not fitting into a division of construction can be outlined on the detail page. The form is available on the SHPO website (<https://mn.gov/admin/shpo/incentives/state/>). Additional information regarding QREs and non-qualified expenditures can be found online at www.nps.gov/tps/tax-incentives/before-apply/qualified-expenses.htm. Additional information on determining the adjusted cost basis and meeting the substantial rehabilitation test can be found online at www.nps.gov/tps/tax-incentives/before-apply/eligibility-requirements.htm.

Part A

A QRE Schedule for Estimated Costs of Rehabilitation must be submitted with the Part A. The schedule outlines the *estimated* QREs, non-qualified expenditures, and the pre-rehabilitation adjusted basis for the purposes of the substantial rehabilitation test. It will also provide a baseline of information to facilitate Part B review once the project is complete. Download the template, fill out the information on the Part A tab, print the form, and submit it along with the Part A.

Part B

A QRE Schedule for Actual Costs of Rehabilitation must be submitted with Part B of the application. The schedule outlines the *actual* QREs, the non-qualified expenditures, and the measuring period of the substantial rehabilitation test. For the Part B application, the financial information outlined on the QRE Schedule must be certified by a Certified Public Accountant (CPA). We strongly recommend the CPA be licensed in Minnesota and/or have knowledge of Minnesota tax law, practices, and policies related to the state and federal historic tax credit programs. The letter must be submitted with an original signature of the CPA.

The CPA's letter accompanying the QRE Schedule must include:

- A statement certifying the QREs presented in the schedule meet the definition of a Qualified Rehabilitation Expenditure under Section 47 of the Internal Revenue Code and that they are allowed for the project under the federal program. We recommend the CPA consider how various grants received for the project may affect whether a work item is a QRE (additional information online at www.nps.gov/tps/tax-incentives/before-apply/irs-faq4.htm).

- A statement verifying the final amount of federal credit allowed for the project. We recommend the CPA consider the information provided on IRS Form 3468 for the federal Investment Credit. The final amount of federal credit allowed for the project is the figure upon which the Minnesota credit certificate or GILOC will be based.
- A description of how the substantial rehabilitation test has been met for the project as a whole. We recommend providing a source for or an explanation of the adjusted cost basis before the project began and a statement indicating the substantial rehabilitation test has been met.

For the CPA certification, we strongly recommend applicants enter into an Agreed-upon Procedures Engagement with a CPA incorporating the following procedures:

- The CPA shall inspect supporting documentation to verify the QREs outlined in the QRE Schedule meet the definition of a Qualified Rehabilitation Expenditure under Section 47 of the Internal Revenue Code.
- The CPA shall verify the amount of federal credit allowed for the project under Section 47 of the Internal Revenue Code.
- The CPA shall test expenditures outlined in the QRE Schedule were incurred during the time period allowed under Minnesota Statute and as used for the substantial rehabilitation test.
- The CPA shall verify the final QREs outlined in the QRE Schedule meet the requirements of the federal program's substantial rehabilitation test.

Applicants should expect to provide the following supporting documentation to their CPA:

- Copies of Parts 2 and 3 of the federal application, including estimated qualified rehabilitation expenditures.
- Copies of Parts A and B of the Minnesota application, including the allocation certificate issued by the SHPO.
- A copy of the completed QRE Schedule for Parts A and B. The QRE Schedule for the Part B may need to be adjusted following the CPA's review.
- Invoices, contracts, subcontracts, and other documents pertaining to the costs reported in the QRE Schedule. We strongly encourage applicants to maintain all associated contracts, subcontracts, receipts, invoices, bills, and any other project documentation in the event of a state or federal audit.
- Information related to any grants received for work performed at the project (e.g., grants from local, state, or federal agencies; Minnesota Historical and Cultural Heritage Grants provided through the Minnesota Historical Society; etc.). Work performed using grants may or may not be considered a QRE depending on whether or not the grant is considered taxable.
- Any other documentation requested by the CPA.

If the information provided in the QRE Schedule originally submitted with the Part A is substantially different than the information provided in the QRE Schedule submitted with the Part B, additional information may be requested. The SHPO reserves the right to request a full audit of expenditures. The SHPO will not issue a credit certificate or a grant-in-lieu-of-credit until the project has been placed in service (as documented in Part 3 of the federal tax credit application), the Part 3 has been approved by the National Park Service, and the property is listed in the National Register of Historic Places. Pursuant to the grant procedures of the SHPO, applicants receiving a grant-in-lieu-of-credit must enter into a formal grant agreement and a five-year letter of agreement requiring any proposed changes to the historic property be reviewed by SHPO.